September 2019

Responsible Investing

AXA IM ESG Standards Policy

As stewards of our clients' assets, our primary goal is to help them preserve and grow their wealth. An important part of achieving this, is by investing responsibly. We believe that responsible investment (RI) can not only deliver sustainable, long-term value for clients but that it can also make a positive impact on society.

As a responsible investor, at AXA Investment Managers (AXA IM) we want to manage ESG risks and opportunities when investing on behalf of our clients. We have identified certain sectors, products and services, in which we will not invest in, above a certain threshold due to ESG-related risk factors. These standards reflect our convictions as a responsible investor and apply to our Responsible Investment and ESG integrated open ended funds, and are available to institutional clients on an opt-in basis. They complement the Responsible Investment sectorial policies which are applied across AXA IM (incl. climate risks policy, controversial weapons policy, palm oil policy, etc.), and are one dimension of our ESG integration approach[1].

AXA IM's ESG standards help us to manage ESG tail-risks. They focus on material issues such as climate change, health and social capital, while also taking into account severe controversies as well as low ESG quality. As a result of these standards, we exclude the following sectors and areas within our RI and ESG integrated funds[2]:

- **Tobacco**

The negative impact of tobacco is well documented and as a result many investors are divesting from the sector. The World Health Organisation (WHO) Framework Convention on Tobacco Control - the first international treaty

[1] Detail of AXA IM ESG integration approach, and RI sectorial policies is available in our RI policy, and on AXA IM website.
[2] Engagement with a company may in certain cases be the chosen approach instead of exclusion.

negotiated by the group - went live in 2005 and today has 181 Parties accounting for more than 90% of the world's population. The aim of the initiative was to take on and tackle issues such as trade liberalisation, direct foreign investment, tobacco advertising, sponsorship and illicit trade in tobacco products. WHO observed that the industry is in conflict with United Nations' principles due to the fact that it uses child labour to produce tobacco. The organization calls the tobacco epidemic "one of the biggest public health threats the world has ever faced", as it kills more than 7m people every year, and circa 10% of these deaths are the result of passive smoking. Given the ongoing and indeed growing pressure the industry faces, we believe that ultimately the regulatory and profitability risks in regard to tobacco companies, remain under-represented.

- ## Defense: White phosphorus weapons

White phosphorus, derived from the chemical element phosphorus, can be used as munitions in incendiary weapons. Such munitions can burn in the open air for a prolonged period and when used in populated areas, cause horrific injuries, burning deep into the muscle and bone.

White phosphorus weapons are covered by Protocol III of the Convention on Certain Conventional Weapons (CCW) when the "weapons [are] primarily designed to set fire to objects or to cause burn injury to persons. It is prohibited in all circumstances to make the civilian population as such, individual civilians or civilian objects the object of attack by incendiary weapons".

But white Phosphorus can also be used in other devices, such as illuminants, tracers, smoke or signaling systems, all of which are notably not covered by Protocol III, where it is considered that such munitions "which may have incidental incendiary effects" are excluded from incendiary weapons. Recently these types of weapons have been used more frequently in populated areas e.g. Syria and Yemen.

- ## UNGC principles

We believe that the companies we invest in should be consistent with the standards of the United Nations Global Compact (UNGC) principles, and that a significant violation of these by an investee company is prejudicial and should be addressed. We actively screen for the most severe controversy stocks, which we believe present a risk to future operations, due to poor business practices. We actively screen for the most severe controversy stocks, which we believe present a risk to future operations, due to poor business practices. We base our analysis on the 'Severe' controversies list regularly updated by the data provider. In addition, we also consider other stocks which may have been flagged by our Responsible or investment teams for targeted review. Those issuers are reviewed by our internal ESG Monitoring and Engagement committee, and, unless there is compelling view that their controversial issues are being or will be addressed soon, and/or unless the company is currently a target of our overall corporate engagement initiatives, the companies are removed from portfolios.

- ## ESG quality

To manage ESG risks, and promote best practices, we actively screen companies with a poor ESG performance, using a "Comply or Explain" approach. We have developed our own scoring methodology, to evaluate the ESG performance of companies worldwide, and do not finance companies with an ESG score below two (on a scale of 10) in our RI and ESG integrated funds. The ESG score might not fully reflect the ESG situation of an issuer at a point in time and that is why a "Comply or Explain" approach is in place - here we rely on a qualitative analysis by our portfolio managers, supported by ESG analysts, which is overseen by a dedicated governance body, the ESG Monitoring and Engagement committee with a Trust & Verify process.

Excluded Companies

Sector / Area	Exclusion criteria	Approach	Source
Tobacco	Companies involved in the production of tobacco (revenue generated by production of tobacco >0%)	Affiliates of excluded companies may also be excluded in particular if they act as securities issuance entity for or act in a similar sector as the related excluded company.	We rely on external providers to prepare an initial list of issuers in scope.
Defense	- Companies involved in the development, production, maintenance or sale of white phosphorus weapons		
UNGC breach	- Companies exposed to severe controversies, highlighting material breaches of the UNGC.	The exclusion lists are updated at least on a yearly basis unless a specific event requires an intermediate revision.	The lists are then reviewed qualitatively and discussed within our RI governance committees on a regular basis. An engagement approach can be chosen for certain issuers.
Low ESG Quality	- Companies with a low ESG score (<2, scores between 0 and 10), using AXA IM ESG scoring methodologies	Portfolio managers are authorised to keep some of the lower ESG scored issuers positions provided that qualitative analysis is undertaken to ensure that no severe risks are identified.	

Sources: Sustainalytics, ISS Ethix, MCSI

Scope

Instruments

Our ESG Standards Policy covers all financial instruments issued by the excluded companies, or those which are offering exposure, to excluded companies.

Portfolios

The ESG Standards Policy applies in principle to all ESG integrated and RI open funds under AXA IM's management[3,4]. The policy also applies to dedicated funds and third-party mandates, when the client has formally opted-in.

The policy does not apply to non ESG integrated / RI open ended funds, nor to funds-of-funds which are not under the management of AXA IM, or to Index funds. It does not apply to dedicated funds, unless the client opted-in.

This policy applies to funds which are part of the AXA IM fund ranges and referenced in AXA IM generic transparency code available on demand, as well as to dedicated funds when specific in the legal documentation.

[3] *ESG integrated open funds in scope are the ones listed in AXA IM ESG integration Generic Transparency code, available on demand. RI funds in scope are open funds which are part of our Listed / Alternative Impact fund ranges, as well as funds which have obtained sustainability-related labels (e.g. Label ISR, Label TEEC, Febelfin).*
[4] *In the case of fund of funds applying the ESG Standards, at least 90% of underlying funds apply the standards.*

Implementation

These ESG standards are implemented on a best-effort basis, taking into account both a client's as well as fund's best interest, with a transition period following their initial implementation for the funds / mandates in scope, and following periodic revisions of the exclusion-lists. If the application of this standard dictates divestments, portfolio managers shall disinvest within this transition period taking into account the portfolio impacts based on market conditions, liquidity and portfolio construction constraints. In practice some banned instruments could remain in the funds or mandates for a limited period if deemed in the best interest of their clients; however, those holdings cannot be increased. The exclusion-lists are prepared using information from external data providers, and although a qualitative review is performed, AXA IM is therefore not responsible for the accuracy of this data.